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PRESSURE POLITICS AND FREE TRADE: INFLUENCE OF
THE SERVICES INDUSTRY ON THE URUGUAY ROUND

Core Course Three Essay

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Seminar C

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I. Introduction:

American trade policy in this century has been characterized by a struggle between interests seeking protection from imports against free trade advocates. In 1935, political scientist E E Schattschneider concluded that effective special interest pressure convinced Congress to ignore warnings and dramatically raise tariffs in the 1930 Smoot-Hawley bill.¹ Schattschneider was the first of many political scientists to analyze why opponents of trade liberalization exert political influence disproportionate to their numbers. He concluded that consumers exert less political influence over trade policy than business because they tend to be less well organized.

Within the business community itself, opponents of liberal trade tend to expend greater efforts to influence trade policy-making. I M Destler outlines three reasons why a minority of producers threatened by imports can wield disproportionate influence on the policy process.² First, there is a chronic imbalance in *intensity of interest* and hence in political organization and influence between those who benefit from trade protection and those who pay the costs. Consumer interests tend to be weak and inchoate compared with organized industry lobbying groups. Moreover, Destler argues, trade liberalization creates *an imbalance between present costs and future benefits*. Exporters who would gain if increased U S imports would provide foreigners the income to purchase more of their products are unlikely to expend the same effort to exert political influence for a theoretical gain as their adversaries would be to preserve their domestic markets. Finally Destler identifies an *imbalance of effort* between companies

¹E E Schattschneider, Politics, Pressures and the Tariff (New York: Prentice-Hall, 1935), 283

²I M Destler, American Trade Politics (Washington D C: Institute for International Economics, 1995), 4-5

that favor or oppose liberal trade. Firms with expanding markets tend to concentrate on business and desire less government interference whereas embattled companies are more likely to exert political pressure to seek trade protection. For these reasons, Destler concludes, free trade opponents in the United States tend to wield political influence disproportionate to their numbers.

Destler also points out that special interests historically focus attention on the Congress because it is less cohesive than the executive branch and more subject to political pressure.

Congress is a decentralized, undisciplined institution, particularly susceptible to pressure from organized interests. So if it 'does what comes naturally,' if the politics of benefit seeking and log-rolling goes unimpeded, the result will be a high level of trade barriers, to the benefit of certain groups and the detriment of the nation as a whole.³

John Tierney agreed with Destler when he wrote "Organized interests have found in the contemporary Congress a highly permeable and open institutional setting that is generally hospitable to their efforts to influence policy decisions"⁴

Given the political influence of trade liberalization opponents, many pundits doubted the executive branch could negotiate a "politically acceptable" multilateral trade liberalization package in the comprehensive General Agreement on Tariffs and Trade (GATT) negotiations known as the Uruguay Round. Although the executive branch represented the United States at these multilateral negotiations, by law it had to submit implementing legislation to the

³Destler, 5

⁴John Tierney, "Interest Group Involvement in Congressional Foreign and Defense Policy," in Congress Resurgent, Foreign and Defense Policy on Capitol Hill, ed. Randall B. Ripley and James M. Lindsay (Ann Arbor Michigan: University of Michigan Press, 1993), 91

Congress under special “fast track” procedures ⁵ Therefore trade negotiators had to develop negotiating positions that accounted for interest group lobbying on Capitol Hill

This paper will explain how disparate U S industries such as finance, telecommunications, audio-visual, and professional services organized themselves to more effectively promote trade liberalization It will argue that these industries skillfully influenced U S negotiating objectives and strategy by taking advantage of the executive-legislative tension inherent in the constitutional “checks and balances” system The American system of government politicized U S trade policy and enhanced industry influence because the executive branch needed political support in Congress to counter opposition to trade liberalization These industries skillfully exploited their “leverage” (trade parlance for influence) over the United States Government’s multilateral trade policy objectives by 1) framing the public policy debate on favorable terms, 2) lobbying the executive and legislative branches, and 3) demonstrating to the executive branch their ability to mobilize needed support from both political parties in Congress for implementing legislation

II. Framing the Debate

In the early 1980s, businessmen involved in finance, tourism, professional services (accounting, legal services, engineering, architecture etc), entertainment, telecommunications, transportation and other “intangibles” did not even consider themselves as part of a coherent “services” sector ^{also,} Larger industry groups such as the U S Chamber of Commerce and the

⁵Legislative procedures set forth in Section 151 of the Trade Act of 1974, stipulating that once the President formally submits to Congress a bill implementing an agreement (under the act’s authority) concerning non-tariff barriers to trade, both houses must vote on the bill within 90 days or it will automatically become law No amendments are permitted

National Association of Manufacturers, however, were uninterested in unique problems facing exporters of “intangible” items Tierney pointed out that

general purpose industry organizations sometimes thrash around ineffectively as they become subject to cross-pressures within their broad memberships Sometimes special industry-backed organizations or ad hoc coalitions are able to act on the broadest issues with greater effect ⁶

The “services industry” became one such example In order to address the concerns of companies trading in “intangibles” a few New York financiers such as Harry Freeman at American Express, John Reed at Citicorp, and Hank Greenberg at AIG in 1981 decided to form such an ad hoc coalition to influence the U S Government policy

According to Undersecretary of State for Economic, Agricultural and Business Affairs Joan Spero (who was Vice President of American Express from 1981-1992) these financial leaders recognized the strength of numbers ⁷ They persuaded companies in other sectors that a large coalition could more effectively change public policy if they redefined themselves as a “service” industry This broad coalition could exert influence by uniting members of Congress from New York (finance), California and Tennessee (audio-visual), Hawaii and Florida (tourism), Washington and Louisiana (maritime shipping), and New Jersey (telecommunications) into a powerful block of support These business leaders built a coalition that reached far beyond the New York financial community to form the Coalition of Service Industries (CSI)

To enhance its influence with the executive and legislative branches, CSI recognized that it had to first shape public perceptions CSI members began speaking out and publishing

⁶ Tierney, 91

⁷ Joan Spero, “You’ve Come a Long Way Baby” unpublished speech before the World Trade in Services Conference, Department of State, Washington D C , May 1995

articles According to Mrs Spero, one early public relations triumph was persuading Fortune magazine in 1984 to publish a “Services Industry 500” to match the “Fortune 500” list of the largest manufacturing companies ⁸

One reason for CSI’s public relations success, according to Mrs Spero, was that it developed a simple message 1) services are important to the economy, 2) services companies employ many workers in “quality” jobs (CSI stressed the high-tech nature of many services jobs to counter a “hamburger flipper” image), 3) services boost the economy by facilitating technological improvements and productivity, and 4) services are a tradable good that can and should be covered by international rules

CSI quickly realized that without aggregated data on the industries in its ad hoc coalition, politicians might not acknowledge its importance Therefore CSI hired economists including the eminent Allen Sinai (now chief economist at Lehman brothers) to work and publish analysis in a new CSI publication called “The Service Economy ” This publication provided data and statistics (services represents 21% of exports, 70% of GDP, and 80% of jobs) to support CSI’s arguments CSI was only too happy to provide potential authors of op-ed pieces with “fact sheets” containing data that had been compiled by the respected economists it had employed

III. Lobbying the Executive Branch

As the public accepted the concept of a “services industry,” CSI began working with the Office of the United States Trade Representative (USTR), the Department of Commerce and other agencies to shape U S trade policy The coalition found a ready audience in the

⁸ ibid

executive branch As Commerce Deputy Assistant Secretary of Commerce for Service Industries and Finance Jude Kearney stated, “We learned in GATT that everyone who touches the negotiation process should interact with the private sector The industries we negotiate for must know what we’re asking for, and what the other side is offering, and what it wants from us ”⁹

Services industry arguments resonated with the executive branch for two reasons First, USTR, aware of Congressional skepticism regarding a multilateral trading agreement, was seeking domestic allies USTR recognized that a broad-based services industry coalition could generate public and congressional support for the agreement (Indeed as the Uruguay Round dragged on, the services industry became one of the most critical allies in USTR’s pro-GATT political coalition) Assistant U S Trade Representative for Services, Investment and Intellectual Property Donald Abelson acknowledged the clout of the services industry

“We should give high priority to liberalizing professional services, because many influential professionals will be affected by any liberalization we achieve in this area These are highly educated people They’re vocal, they vote, and they can become strong advocates for what we’re doing ”¹⁰

The second reason the services industry found a receptive executive branch audience was because USTR officials believed that trade liberalization was good public policy The services industry was not demanding a dramatic departure from U S trade policy, rather it sought an expansion of government efforts consistent with that policy When the services industry convincingly demonstrated that service exports were important to U S economic

⁹ *ibid*

¹⁰ World Trade in Services, Highlights from a Conference at the U S Department of State, (Washington D C May 2, 1995), 17

competitiveness, the executive branch quickly incorporated services industry goals into its trade liberalization objectives USTR economist Geza Feketekuty wrote

“International trade in services has become an important issue because international trade in services has become big business, and the enterprises that conduct trade are counted among the largest corporations of the world A model of the world economy that does not accommodate trade in services has become increasingly unacceptable to enterprises selling services These enterprises do not see a fundamental distinction between the sale of services and the sale of manufactured goods to customers in other countries ”¹¹

In 1982 CSI worked closely with USTR to place services on the global trade agenda USTR, with intellectual support from CSI, began work in the Organization for Economic Cooperation and Development (OECD) trade committee By 1985, the OECD published a study that framed the trade in services issue for a multilateral trade negotiation After this beginning, CSI supported USTR’s efforts to include services in the multilateral trade negotiations that were finally launched at Punta del Este, Uruguay in 1985

IV. Lobbying Congress

The services industry had two broad objectives in lobbying Congress 1) to insure congressional passage of Uruguay Round implementing legislation, and 2) to convert “clout” on Capitol Hill into influence over executive branch positions The industry could do this by providing members of Congress a *political counterweight* to protectionist pressures I M Destler pointed out that members of Congress need “devices for diverting and managing trade protectionist pressures ”¹² in order to vote for trade liberalization The services industry

¹¹ Geza Feketekuty, International Trade in Services An Overview and Blueprint for Negotiations (Cambridge Mass Ballinger for American Enterprise Institute, 1988)

¹² Destler, p 5

coalition would provide this political cover to Congress in exchange for support from the executive branch for industry objectives in the negotiations

Mrs Spero explained that the industry rapidly identified “champions” in the House and Senate to carry the message (Not surprisingly these champions, Representative Sam Gibbons and Senator Daniel Inouye, represented districts with economies heavily dependent on services -- particularly tourism) Most important, according to Mrs Spero, was convincing the Congress that the most effective way to liberalize global trade in services was through a multilateral trade negotiation -- the approach most likely to be adopted because it was preferred by the executive branch

As part of its congressional lobbying effort, CSI went “on the record ” In 1982 CSI’s general Counsel Richard Rivers testified in favor of legislation that required the Commerce Department to compile data on the services industry (the term “services industry” had now become an accepted part of the business lexicon), and covered trade in services under Section 301 of the 1974 Trade Act (a provision that empowers USTR to impose sanctions on a foreign country that maintains trade barriers against U S exports) ¹³

To accomplish the services industry’s second objective, it generated letters to USTR from sympathetic members expressing “strong support” for liberalization of trade in services CSI interested members in holding congressional hearings where industry experts and administration officials “testified” side by side on the importance of services trade liberalization to the U S economy If there were any doubts in the executive branch, these activities

¹³ Congress, House of Representatives, Committee on Energy and Commerce, Hearing before the Subcommittee on Commerce, Transportation, and Tourism on the Service Industries Development Act of 1982, 97th Cong , 2nd Sess , 11 March 1982, 109-117

demonstrated services industry influence over congressional attitudes toward the multilateral trade negotiations

As a result of CSI activities on Capitol Hill, the services industry and U S trade negotiators entered into a “symbiotic relationship,” CSI provided needed factual information and political muscle in favor of GATT negotiations, and the government provided CSI access to the trade policy-making process. In effect the executive branch welcomed CSI’s lobbying efforts on Capitol Hill even at the cost of allowing industry to affect U S negotiating strategy.

This “implicit bargain” meant that henceforth USTR would face *two* negotiations, the “external bargaining” between the U S and other countries, and the “internal bargaining” between the executive branch and industry. CSI Executive Director Margaret Wigglesworth stated that “government cannot develop effective trade policies in isolation. Business must collaborate with government.”¹⁴ Foreign governments also understood this relationship as well. As early as 1987 the Indian lawyer P S Randhawa wrote

As is well known, the prime mover of this [trade in services] debate has been the United States, backed strongly by the U S Transnational Corporations. We are well aware that the pressure for negotiations has been built up by Services conglomerates in banking and finance, telecommunications, insurance, advertising, and other business services.¹⁵

The formal mechanism cementing this industry-government partnership was the Industry Sectoral Advisory Committee (ISAC) where USTR briefed industry representatives on the progress of negotiations and solicited private sector input and advice. Perhaps even more important were the informal consultations and “strategy sessions” between individual

¹⁴ World Trade in Services, 5

¹⁵ P S Randhawa, “Punta del Este and After: Negotiations on Trade in Services and the Uruguay Round,” in Journal of World Trade Law, 21 no. 4 (Geneva, Switzerland: August 1987), 169

industry representatives and USTR negotiators. Both sides understood that services industry political support meant that services industry priorities would remain among the foremost U S negotiating objectives.

VI. Conclusion

When the Uruguay Round was finally completed in 1993, all parties accepted a new “General Agreement on Trade in Services” (GATS) to complement the General Agreement on Tariffs and Trade (GATT). Mrs. Spero believes that the fundamental principles contained in the GATS agreement¹⁶ are critical for the ability of U S services firms to compete globally.¹⁷

A disparate coalition of industries had skillfully influenced the U S government’s decision-making process and helped shape global trade rules. By the end of the Uruguay Round, the “services industry” had joined the mainstream of trade circles with business leaders like Jack Valenti of the Motion Pictures Association and Hank Greenberg of AIG wielding influence on both ends of Pennsylvania Avenue.

The services industry succeeded because it skillfully framed a message to define its goals in congruence with those of the executive branch. The Reagan, Bush and Clinton administrations all supported global trade liberalization. Services industry influence, however, was enhanced by executive-legislative branch tension inherent in the constitutional “checks and balances” system. To implement the Uruguay Round agreement, USTR needed political

¹⁶ These are national treatment (core obligation that each national government would grant equal treatment to services products of all others adhering to GATS), transparency (government rule-making conducted openly), market access, the free flow of payments and transfers, and “most favored nation” (any benefit extended to a foreign service must be extended to services imported from any other GATS signatory)

¹⁷ Spero, 6

support from the services industry in Congress, but this support would depend on negotiating results in Geneva. Accordingly, USTR could not afford to slight services industry objectives.

Although the terms "special interest" and "lobbying" have negative connotations, this case study demonstrates that the democratic process, where various special interest groups each act to promote narrow self interests, can result in good policy outcomes. Because labor and certain industries (textiles, steel and autos) organized to oppose the trade liberalization package, services industry lobbying served as Destler's *political counterweight* necessary to implement policies that Democratic and Republican administrations had decided were in the public interest.

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